

Message Text

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PAGE 01 BONN 05936 041803Z
ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 /026 W
-----042301Z 054960 /63
R 041753Z APR 77
FM AMEMBASSY BONN
TO SECSTATE WASHDC 7152
INFO USMISSION USBERLIN

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EXDIS

E.O. 11652: NA
TAGS: EFIN, ECON, GW, OVIP(VANCE, CYRUS P.)
(SCHMIDT, HELMUT)
SUBJ: AMERICAN TREATMENT OF BERLIN TAX INCENTIVES

1. DURING HIS VISIT WITH CHANCELLOR SCHMIDT ON MARCH 31, ACTING STATE SECRETARY VAN WELL MENTIONED TO THE SECRETARY THE FACT THAT AMERICAN COMPANIES INVESTING IN BERLIN WERE NOT ABLE TO TAKE ADVANTAGE OF THE TAX INCENTIVES OWING TO THE TREATMENT OF SUCH INCOME BY US TAX AUTHORITIES.

2. AS PROMISED THE SECRETARY, I LOOKED INTO THE MATTER AND FIND THAT, AS WE UNDERSTAND IT, INVESTMENTS BY AMERICAN FIRMS IN BERLIN DO HAVE A TAX ADVANTAGE OVER SIMILAR INVESTMENTS IN THE FRG, BUT THIS ADVANTAGE IS SOMEWHAT SMALLER THAN THE GERMAN BERLIN TAX INCENTIVE. THERE ARE A LARGE NUMBER OF GERMAN TAX AND OTHER INCENTIVES FOR INVESTMENT IN BERLIN (FOR DESCRIPTION SEE US MISSION BERLIN'S A-81 OF MAY 18, 1976). MOST OF THESE, SUCH AS THE TURNOVER TAX REBATE, SPECIAL DEPRECIATION ALLOWANCES,
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INVESTMENT SUBSIDIES, APPLY EQUALLY TO GERMAN FIRMS AND AMERICAN DAUGHTER COMPANIES.

3. IN ADDITION, FIRMS DOMICILED OR PRODUCING IN BERLIN ARE GRANTED A REDUCTION IN THE GERMAN CORPORATE INCOME TAX OF 20 PERCENT OF THIS TAX PLUS 3.2 PERCENT OF THE INCOME DERIVED IN BERLIN. IF A US DAUGHTER

COMPANY LOCATED IN BERLIN REPATRIATES ITS EARNINGS TO THE US, THE INCOME IS, HOWEVER, SUBJECT TO THE FULL US CORPORATE INCOME TAX, WITH A CREDIT GIVEN FOR GERMAN TAXES PREVIOUSLY PAID. SINCE A US COMPANY IN BERLIN PAYS LESS GERMAN TAXES THAN IN THE FEDERAL REPUBLIC, THE US DAUGHTER COMPANY LOCATED IN BERLIN EARNS A LESSER TAX CREDIT THAN A US DAUGHTER COMPANY LOCATED IN THE FEDERAL REPUBLIC.

4. UNDER THE NEW GERMAN CORPORATE INCOME TAX LAW, WHICH CAME INTO FORCE THIS YEAR, OUR CALCULATIONS SHOW THAT US CORPORATE INCOME TAX FROM INCOME REPATRIATED BY US DAUGHTER COMPANIES FROM BERLIN LOSES SOME BUT NOT ALL OF THE TAX ADVANTAGES GIVEN TO EARNINGS IN BERLIN. WITHOUT THE US CORPORATE INCOME TAX, THE BERLIN ADVANTAGE WOULD AMOUNT TO DM 6.-- FOR EACH DM 100.-- OF TAXABLE EARNINGS. BECAUSE OF THE US CORPORATE INCOME TAX, THE BERLIN ADVANTAGE WOULD BE REDUCED TO DM 4.-- FOR EACH DM 100.-- OF TAXABLE EARNINGS, A REDUCTION OF ONE-THIRD IN TAX ADVANTAGE FOR HAVING INVESTED IN BERLIN.

5. IT IS MY UNDERSTANDING THAT IT WOULD REQUIRE LEGISLATION BY THE US TO REMOVE THIS DISPARITY, WHICH, TO OUR KNOWLEDGE, UP TO NOW HAS BEEN RESISTED ON THE US SIDE.
STOESSEL

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Message Attributes

Automatic Decaptioning: Z
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: FOREIGN INVESTMENT, TAX RELIEF, INCOME TAXES, BERLIN QUADRIpartite MATTERS
Control Number: n/a
Copy: SINGLE
Sent Date: 04-Apr-1977 12:00:00 am
Decaption Date: 22 May 2009
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977BONN05936
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770117-0330
Format: TEL
From: BONN
Handling Restrictions:
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770492/aaaadcoh.tel
Line Count: 89
Litigation Code IDs:
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Litigation History:
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Message ID: e64401ab-c288-dd11-92da-001cc4696bcc
Office: ACTION SS
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: EXDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: EXDIS
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 02-Feb-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2912225
Secure: OPEN
Status: NATIVE
Subject: AMERICAN TREATMENT OF BERLIN TAX INCENTIVES
TAGS: EFIN, ECON, OVIP, GE, US, BERLIN, (VANCE, CYRUS R), (SCHMIDT, HELMUT)
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/e64401ab-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009